

Message Text

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NSC-10 NSCE-00 SAJ-01 ACDA-19 CIAE-00 INR-10 IO-15

L-03 NSAE-00 RSC-01 SCEM-02 DRC-01 TRSE-00 EB-11

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O R 101827Z OCT 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 7948

INFO USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 BONN 14704

DEPT FOR UNDER SECRETARY CASEY AND SIEVERING, SCI

PASS AEC

E.O. 11652: GDS

TAGS: TECH, PFIN, GW

SUBJECT: FRG PURCHASE OF URANIUM ENRICHMENT SERVICES

FROM USSR - OFFSET AGREEMENT

REF: (A) BONN 14563; (B) BONN 14141

1. SUMMARY. FONOFF DEPUTY ASSISTANT SECRETARY
POENSGEN CALLED IN EMBASSY'S ECONOMIC/COMMERCIAL
MINISTER TO FOLLOW-UP REFTEL DISCUSSIONS BETWEEN
UNDER SECRETARY CASEY AND AMBASSADOR HERMES AS REGARDS
POSSIBLE INCLUSION OF URANIUM ENRICHMENT DEAL UNDER
OFFSET. IN FRIENDLY BUT BLUNT PRESENTATION, POENSGEN
REVIEWED STATUS OF FRG NEGOTIATIONS WITH USSR FOR
URANIUM ENRICHMENT SERVICES. HE DISCLOSED GERMAN
INDUSTRIES ARE PRACTICALLY COMMITTED TO PURCHASE
APPROXIMATELY 3300 TONS OF SEPARATIVE WORK FROM USSR
AT TERMS AND CONDITIONS BETTER THAN THOSE OFFERED BY
USAEC. USSR HAS ALSO OFFERED NUKEM AN OPTION FOR AN
ADDITIONAL 2000 TONS SW. THIS QUANTITY IS THE ONLY
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IMMEDIATE PROSPECT FOR INCLUSION UNDER US/FRG

OFFSET. IN FRG VIEW, USG MUST MAKE US ENRICHMENT SERVICES MORE ATTRACTIVE COMMERCIALY IF NUKEM IS TO BE PERSUADED TO LET USSR OPTION LAPSE IN FAVOR OF US URANIUM ENRICHMENT SERVICES UNDER OFFSET. ECON/COM MINISTER REVIEWED USG OFFSET POSITION AND EMPHASIZED UNDER SECRETARY CASEY'S PROPOSAL THAT FRG AND US BOTH ASCERTAIN WHETHER THEY COULD ASSIST INCLUSION OF URANIUM PURCHASE UNDER OFFSET. FONOFF REP AGREED FRG MIGHT HELP BUT ASKED FOR USG VIEWS AND SUGGESTIONS NO LATER THAN MONDAY, OCTOBER 15, FOR PRESENTATION AT INTER-MINISTERIAL MEETING WHICH WILL REVIEW OFFSET QUESTION. COMMENT: ALTHOUGH FONOFF POSITION OBVIOUSLY INFLUENCED BY DESIRE NEGOTIATE TOUGH, WE HAVE NO REASON TO BELIEVE THAT FRG BLUFFING IN THEIR STATED WILLINGNESS TO ACCEPT URANIUM ENRICHMENT SERVICES TOTALING 5300 TONS SEPARATIVE WORK FROM USSR. NOTING FRG ESTIMATED CUMULATIVE NEED FOR URANIUM ENRICHMENT SERVICES OF 13500 TONS SW FOR PERIOD 1975-80, IT WOULD APPEAR THAT THESE USSR ORDERS WOULD PREEMPT SIGNIFICANT FRACTION OF MARKET. WE RECOMMEND THAT COMMERCIAL FACTORS AS WELL AS OFFSET CONSIDERATIONS BE WEIGHED IN PREPARING US RESPONSE. END SUMMARY. ACTION REQUESTED: RESPONSE TO FRG PRESENTATION ASAP. SEE PARA 9.

2. DEPUTY ASSISTANT SECRETARY POENSGEN, FOREIGN OFFICE ECONOMIC DEPARTMENT, INVITED EMBASSY'S ECONOMIC AND COMMERCIAL MINISTER AND SCIENCE ATTACHE TO CALL TO OBTAIN ADDITIONAL INFORMATION ON STATUS OF FRG NEGOTIATIONS ABOUT PURCHASES OF URANIUM ENRICHMENT SERVICES FROM THE USSR. POENSGEN EXPLAINED THAT HIS INVITATION WAS INTENDED AS A FOLLOW-UP TO THE CONVERSATION BETWEEN FRG ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS HERMES AND UNDER SECRETARY CASEY REPORTED IN REFTEL. POENSGEN GAVE, AS ADDITIONAL MOTIVATION FOR HIS URGENT INVITATION, THE DESIRE TO DISCUSS THE RELATIONSHIP BETWEEN THE FRG, THE USSR AND THE US WITH RESPECT TO URANIUM ENRICHMENT SERVICES AND THE POSSIBILITY THAT URANIUM PURCHASES COULD BE INCLUDED IN THE OFFSET AGREEMENT.

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3. POENSGEN, ASSISTED AS NECESSARY BY OFFICIAL FROM FRG MINISTRY FOR RESEARCH AND TECHNOLOGY, EXPLAINED THAT NEGOTIATIONS WITH THE USSR FOR THE PURCHASE OF APPROXIMATELY 1300 TONS SEPARATIVE WORK (SW) ARE ALMOST

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COMPLETE. THIS IS ESTIMATED REQUIREMENT FOR FOUR NUCLEAR REACTORS AT MUELHEIM-KAERLICH, BIBLIS B, NIEDERAICHBACH (SEE COCOM DOC (73) 1627 OF AUGUST 21, 1973) AND AT NECKARWESTHEIM. SEPARATIVE WORK REQUIREMENTS ESTIMATED AT 300 (PLUS 100 FOR PARTIAL RELOAD), 300 PLUS 100, ABOUT NINE, AND 500-550 TONS SW, RESPECTIVELY, FOR TOTAL OF APPROXIMATELY 1300 TONS SW.

4. POENSGEN CONTINUED THAT NUKEM HAD BEEN DISCUSSING THE PURCHASE OF 3000 TONS SW WITH THE USAEC BUT WITHOUT RESULTS. NUKEM WAS THUS ENCOURAGED TO CONSIDER A USSR OFFER TO SUPPLY THESE ENRICHMENT SERVICES. A DELEGATION FROM NUKEM, WHICH HAD VISITED THE USSR, RETURNED ON OCTOBER 5 AND REPORTED TO THE FONOFF ON MONDAY, OCTOBER 8. NUKEM HAS INITIALED AN AGREEMENT WITH THE USSR FOR THE PURCHASE OF 2000 TONS SW AND ARE PREPARED TO SIGN A CONTRACT BEFORE THE END OF OCTOBER. THE PRICE WILL BE DOLLARS 32 PER KILOGRAM SW WITH DELIVERIES IN PERIOD 1976-1980. IF THIS CONTRACT IS SIGNED BEFORE OCTOBER 31, THE USSR WILL "GRANT" NUKEM AN OPTION TO BUY AN ADDITIONAL 2000 TONS SW AT THE SAME PRICE FOR
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DELIVERY BEGINNING IN 1981-82. THIS OPTION WOULD EXPIRE JANUARY 31, 1974.

5. POENSGEN BELIEVED THAT TIME PERIOD BETWEEN INITIALING AGREEMENT AND SIGNATURE OF CONTRACT WAS TOO SHORT FOR FRG TO DEVELOP AND PRESENT ANY REASONABLE ALTERNATIVE TO NUKEM. THIS DEADLINE WAS A CONDITION SET BY RUSSIANS. FURTHERMORE, THE USSR TERMS WERE QUITE FAVORABLE IN COMPARISON WITH THE "ONLY OTHER SUPPLIER" (I.E. THE US).

6. POENSGEN SUMMARIZED: NEGOTIATIONS WITH THE USSR ARE ALMOST COMPLETE FOR 1300 TONS SW AND NUKEM WILL PURCHASE AT LEAST 2000 TONS SW MORE. ONLY THE PURCHASE OF A SECOND 2000 TONS SW, FOR WHICH THE USSR HAS OFFERED AN OPTION, REMAINS OPEN FOR US-FRG DISCUSSIONS AND NEGOTIATIONS. FRG HAD ASKED NUKEM WHETHER THE COMPANY FELT OBLIGATED TO PICK UP THE USSR OPTION AND WHETHER THE FRG-USSR RELATIONSHIP WOULD IN ANY WAY BE INJURED IF THE OPTION WERE PERMITTED TO LAPSE. NUKEM HAD REPLIED THAT THEY WERE PERFECTLY FREE TO REFUSE.

7. POENSGEN THEN OBSERVED THAT THE FRG WANTED TO MAKE THE OFFSET AS LARGE AS POSSIBLE. HE WONDERED WHAT MIGHT BE DONE TO SAVE THIS 2000 TON SW ORDER FOR THE OFFSET AGREEMENT. NUKEM WAS A COMMERCIAL ORGANIZATION AND WOULD BE INFLUENCED ONLY BY COMMERCIAL CONSIDERATIONS. THE FRG HAD NO POWER TO DIRECT THEM. POENSGEN FELT IT NECESSARY TO CALL THESE FACTS TO USG ATTENTION. IF US CAN NOT RPT NOT MAKE AN OFFER WHICH IS ACCEPTABLE TO NUKEM, THIS PURCHASE OF URANIUM ENRICHMENT SERVICES WOULD BE LOST FOR THE OFFSET WHICH WOULD BE DEPLORABLE.

8. POENSGEN THEN OFFERED THREE POINTS TO FACILITATE ASSESSMENT OF THE SITUATION:

A. PRICE: THE USSR OFFERED URANIUM ENRICHMENT SERVICES AT DOLLARS 32 PER KILOGRAM SW VS US AT DOLLARS 36. HE FELT SOME ADJUSTMENT IN THIS AREA MIGHT BE POSSIBLE, I.E. SOME TECHNIQUE TO SAVE INTEREST CHARGES OR TO POSTPONE PAYMENTS WHICH MIGHT MAKE THE US AND USSR TERMS MORE NEARLY
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COMPARABLE.

B1. NATURAL URANIUM SUPPLIES:

SO FAR AS FRG IS AWARE, AEC REQUIRES THAT NATURAL URANIUM SUPPLIED FOR ENRICHMENT BE OF US ORIGIN. THIS PRECLUDES FRG FROM BUYING NATURAL URANIUM FROM SOME CHEAPER FOREIGN SOURCE. TECHNOLOGY MINISTRY HAS CALCULATED THAT THIS WOULD ADD SOME DOLLARS 20 MILLION TO REAL COST OF 2000 TONS SW FROM US.

B2. FURTHERMORE, AEC REQUIRES DELIVERY OF SOURCE MATERIALS LONG BEFORE ENRICHED URANIUM IS MADE AVAILABLE. THE USSR WILL REQUIRE "SEVERAL YEARS" LESS, I.E. THERE WILL BE EFFECTIVELY NO STORAGE OF NATURAL URANIUM PRIOR TO DELIVERY OF ENRICHED MATERIAL. POENSGEN ASKED THAT USG REVIEW BOTH POINTS B1 AND B2 ABOVE.

C. STOCKPILING: THE FRG, OF COURSE, WOULD PLAN TO STOCKPILE SOME OF THESE URANIUM PURCHASES TO MEET ANY GAPS THAT MIGHT OCCUR IN DELIVERIES FROM US OR

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ANY OTHER SOURCE. FRG UNDERSTANDS, HOWEVER, THAT THAT STOCKPILED ENRICHED URANIUM BOUGHT FROM AEC

COULD BE USED ONLY TO FILL SUPPLY GAPS IN PLANTS SCHEDULED TO USE US NUCLEAR FUEL. POENSGEN OBSERVED THAT THIS SITUATION DOES NOT RPT NOT MEET FRG NEEDS, NOT EVEN IF USE LIMITATIONS WERE REMOVED AFTER PASSAGE OF SEVERAL YEARS. FRG WOULD WANT FREEDOM TO DISPOSE OF STOCKPILED ENRICHED US URANIUM AS NECESSARY.

9. POENSGEN CONCLUDED HIS CAREFULLY PREPARED PRESENTATION BY NOTING THAT IT WAS DIFFICULT FOR THE FOREIGN OFFICE TO DEBATE THESE POINTS WITH OTHER MINISTRIES IN THE OFFSET CONTEXT UNLESS NUKEM COULD BE ENCOURAGED TO FAVOR PURCHASE OF 2000 TONS SW FROM THE US. HE DOUBTS THAT FRG FINANCE MINISTER COULD EASILY BE PERSUADED TO ADVANCE MONEY TO SUBSIDIZE THIS SALE IN OPPOSITION TO INTERESTS OF OTHER MINISTRIES. AN INTER-MINISTERIAL MEETING TO DISCUSS THE OFFSET AGREEMENT WAS SCHEDULED IN THE NEAR FUTURE. IF THE USG HAD ANY RELEVANT PROPOSALS, HE WOULD NEED TO RECEIVE THEM NO LATER THAN CONFIDENTIAL

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MONDAY, OCTOBER 15.

10. EMBASSY ECONOMIC/COMMERCIAL MINISTER, GIVEN OPPORTUNITY TO SPEAK FOR FIRST TIME AS POENSGEN WORKED THROUGH THE POINTS IN HIS BRIEF, REVIEWED USG POSITION ON OFFSET AND REMINDED POENSGEN OF NEED FOR SOLID AGREEMENT IN LIGHT CONGRESSIONAL ATTITUDES AND PRESSURES, INCLUDING JACKSON-NUNN AMENDMENT REQUIRING REDUCTION US TROOPS IN EUROPE IN PROPORTION TO SHORTFALL IN OFFSET. ECON/COMMIN RECALLED UNDER SECRETARY CASEY'S CONCLUSION RE URANIUM ENRICHMENT THAT BOTH SIDES SHOULD LOOK AT THE SITUATION AND DETERMINE THE CONTRIBUTION THAT EACH MIGHT BE ABLE TO MAKE TO PERMIT THE INCLUSION OF URANIUM ENRICHMENT IN THE OFFSET. ECON/COMMIN REMINDED GROUP (SEE REFTTEL) THAT FRG APPEARS TO BE APPROACHING CRITICAL POINT IN ITS RELIANCE ON USSR AS SOURCE OF ENERGY. EMBASSY WOULD REPORT POENSGEN REMARKS. HOWEVER, ECON/COMMIN REITERATED THAT BOTH SIDES WERE TO SEEK OFFSET SOLUTION. HE URGED FRG TO CONSIDER WAYS IT COULD HELP TO MAKE US URANIUM SERVICES COMMERCIALY ATTRACTIVE TO NUKEM.

11. POENSGEN RESPONDED THAT THE FRG MIGHT BE ABLE TO HELP. HE RECALLED THAT THERE WERE THREE AREAS OF DIFFICULTY (PARA 8 ABOVE). FRG MIGHT HELP WITH ONE BUT COULD NOT SWALLOW THEM ALL. FOR EXAMPLE, THE LAST POINT (PARA 8C, ABOVE) WOULD SEEM TO BE AN "ALL OR NOTHING" QUESTION. EITHER THE FRG WOULD BE PERMITTED TO DISPOSE OF ITS STOCKPILE OF US ENRICHED URANIUM AS

IT CONSIDERED NECESSARY, OR IT WOULD NOT. POENSGEN
CONCLUDED THAT THE FRG'S ATTITUDE WAS NOT RPT NOT
INFLEXIBLE BUT US COOPERATION WOULD BE NECESSARY.
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